

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Barry Fisher, Director, Health Care Agency

Date: June 29, 2016

From:  Jeffery S. Burgh

Subject: AUDIT OF COSTS OF THE HEALTH CARE AGENCY'S ELECTRONIC HEALTH RECORDS SYSTEM THROUGH DECEMBER 31, 2014

We have completed our audit of the costs of the Health Care Agency's ("HCA's") Electronic Health Records ("EHR") system through December 31, 2014. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

EXECUTIVE SUMMARY

Overall, we found that EHR system costs were supported with invoices/documentation and partially offset with "Meaningful Use" incentive revenues as projected. We identified total costs of \$56 million, offset by \$15.5 million in revenue and cost savings/avoidance, for net EHR system cost of \$40.5 million through December 31, 2014. The majority of this cost, \$34.3 million, was paid to Cerner Corporation ("Cerner") as the EHR system provider.

Our audit samples confirmed that costs were generally supported and reasonable, and we verified that \$13.5 million in "Meaningful Use" incentive revenues had been received through December 31, 2014. We also physically located a sample of nearly 400 equipment items purchased for the EHR system implementation.

However, our audit disclosed areas where action was needed to strengthen controls over contract administration and invoice payment practices. Specifically, we found that:

- The Cerner contract lacked a maximum contract amount and certain item quantities and prices, and millions of dollars in payments to Cerner were based on subsequent documents that were not always properly authorized.
- HCA's invoice payment process was not always sufficient to ensure that payments to vendors were appropriate, resulting in approximately \$5 million in sampled costs that were not based on contract rates.
- Labor costs were not always properly charged to the EHR project, placing the County at risk if these costs were improperly charged to grants or other projects with stringent timekeeping requirements.
- Lack of tracking of new end-user equipment placed the items at risk of misappropriation without detection.

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HCA management initiated corrective action to address our findings. Corrective action is planned to be completed by December 31, 2016.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable Linda Parks, Chair, Board of Supervisors
Honorable John C. Zaragoza, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Honorable Peter C. Foy, Board of Supervisors
Michael Powers, County Executive Officer

**County of Ventura
Office of the Auditor-Controller**



**AUDIT OF COSTS OF THE HEALTH CARE AGENCY'S
ELECTRONIC HEALTH RECORDS SYSTEM
THROUGH DECEMBER 31, 2014**

June 29, 2016

**Jeffery S. Burgh
Auditor-Controller**

**AUDIT OF COSTS OF THE HEALTH CARE AGENCY'S
ELECTRONIC HEALTH RECORDS SYSTEM
THROUGH DECEMBER 31, 2014**

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**AUDIT OF COSTS OF THE HEALTH CARE AGENCY'S
ELECTRONIC HEALTH RECORDS SYSTEM
THROUGH DECEMBER 31, 2014**

BACKGROUND

The Health Information Technology for Economic and Clinical Health Act, enacted as part of the American Recovery and Reinvestment Act of 2009, established Federal incentive payments to promote the adoption and meaningful use of Electronic Health Record ("EHR") systems. Eligible hospitals and practitioners could begin participation in the incentive program in 2011 and receive payments over a maximum of 6 years. Those that did not achieve "Meaningful Use" of an EHR system by 2015 would be subject to an annual reduction in Medicare payments of up to 5 percent. The Health Care Agency ("HCA") estimated that a 3 percent reduction for the Ventura County Medical Center ("VCMC") amounted to \$900,000 annually.

On October 4, 2011, after a competitive selection process, the Board of Supervisors ("BOS") approved a contract with Cerner Corporation ("Cerner") as the County's EHR system provider. The BOS approved \$32,466,000 for the estimated cost of the Cerner contract and authorized the Purchasing Agent to make changes up to \$250,000 without additional Board approval. HCA estimated this cost would be funded with \$20.6 million in "Meaningful Use" incentive revenue, with the remainder wholly funded by operating revenues and cost savings/avoidance.

HCA selected the EHR "Go Live" date of July 1, 2013, to qualify for full "Meaningful Use" incentive revenue.

HCA returned to the BOS on several occasions between 2012 and 2014 to request an additional \$20 million for EHR-related contracts and expenses, for total authorized costs of \$53 million. In 2014, HCA also requested BOS approval of \$19 million for Cerner remote hosting over 10 years, bringing total authorized costs to \$72 million.

SCOPE

Our overall audit objective was to determine whether the costs of HCA's EHR system through December 31, 2014, were supported with invoices/documentation and offset with revenues as projected.¹ For example, we verified that:

- costs were reasonable and supported with invoices, time records, or other documentation;
- equipment devices (e.g., laptops, scanners, and televisions) purchased as part of the EHR system implementation were put into operation; and
- revenues were received as projected for achieving the requirements of "Meaningful Use".

During the audit, we identified total estimated EHR cost of \$56 million, partially offset by \$15.5 million in revenue and cost savings/avoidance, for net EHR system cost of \$40.5 million through December 31, 2014.²

¹ Additional EHR system costs/revenues will be incurred/realized in future years. Determining those future amounts was outside of the scope of this audit.

² The \$56 million included one-time costs of implementing the EHR system and costs of maintaining/operating the system through December 31, 2014.

We reviewed over \$35 million (63%) of the total estimated cost to ensure that expenditures were based on contract provisions and properly supported. We also reviewed all of the cost offsets and physically verified several hundred equipment items.

The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors using documents from October 2005 through May 2015.

FINDINGS

Overall, we found that EHR system costs through December 31, 2014, were supported by invoices/documentation and partially offset with "Meaningful Use" incentive revenues as projected. For example:

- Our sample of nearly \$20 million (58%) in technology payments out of \$34.3 million paid to Cerner through December 31, 2014, confirmed that charges were generally supported with documentation that tied to price schedules.
- Our physical inventory of nearly 400 (22%) out of 1,800 equipment items purchased for the EHR system implementation confirmed that the items had been placed in operation or were in storage.
- HCA received "Meaningful Use" incentive revenues of \$13.5 million as projected through December 31, 2014.

However, inadequate contracting and payment practices placed the County at risk of overpaying for goods and services that may or may not have benefited the EHR system. The initial Cerner contract lacked a maximum contract amount and certain item quantities and prices, and millions of dollars in payments to Cerner were based on subsequent documents that were not always properly authorized. We also identified nearly \$5 million in vendor payments that could be called into question because HCA did not always consult the respective contracts before paying invoices. Our audit also disclosed other risks relating to the billing of staff time and tracking of equipment.

Following are details of the areas where improvements were needed. HCA management initiated corrective action during the audit as noted in HCA's written responses, which are included as an appendix to this report.

1. **Cerner Contract Administration.** HCA did not always exercise adequate control over administration of the Cerner contract. HCA's initial agreement with Cerner was essentially an estimate that lacked key contract terms such as a maximum contract amount and certain item quantities and prices. Further, lack of proper approvals of additional Cerner documents demonstrated how HCA could benefit from a designated fiscal coordinator on future capital projects.
 - A. **Cerner Contract Elements.** The original Cerner contract presented to the BOS for approval did not identify the maximum contract amount, or item quantities or prices in many cases, in nonconformity with County policy. County Administrative Policy No. Chapter VI-1, *County Contracts and Agreements*, states: "The maximum total contract payment should be specified. If the amount to be paid is contingent on any factors, the method of ascertaining whether the factors have been complied

with should be explained.” While HCA's letter to the BOS dated October 4, 2011, provided a breakdown of the \$32,466,000 requested for the Cerner contract, the actual contract contained a mix of estimates, one-time and ongoing costs, and equipment lists without quantities and prices. We recognize the challenge of anticipating all elements of cost in advance due to the scale and complexity of the EHR project. However, the contract presented to the BOS put HCA at risk of significant price increases due to lack of specific elements of cost and deliverables.

Recommendation. HCA should consider breaking down contracts for large scale projects into phases to better identify costs and deliverables when uncertainty exists at the outset of the project. HCA should also consider separating implementation cost agreements from ongoing service/subscription agreements to better manage and clarify one-time project costs from system operating costs.

Management Action. HCA management stated:

HCA respectfully disagrees with the Auditor's finding of “lacking Cerner Contract Elements and the maximum total contract payment” and that “HCA did not always exercise adequate control over administration of the Cerner contract”.

As background, it is important to note that in July 2010, the Centers of Medicare & Medicaid Services (CMS) published the final rule which established three phases of the EHR Incentive Program. The three stages of Meaningful Use (MU) are designed to support Eligible Professionals (EP) and Eligible Hospitals (EH) with implementing and using EHRs in meaningful way to help improve the quality and safety of the nation's healthcare system. The Medicaid EHR Incentive Program allows providers to adopt, implement, or upgrade to certified EHR technology in their first year of participation. The selection of Cerner as a certified EHR technology, known as among the best EHR systems available ensures the EPs and EH achieve the CMS MU criteria.

Further, when HCA submitted the required meaningful use criteria to the Federal Center for Medicaid and Medicare, this project met 100% (a very rare accomplishment) which, for example, Stage 1 includes more than 40 separate criteria of the Federal requirements due to the successful implementation of the EHR system. Federal EHR incentive payment is not based on cost but on a sophisticated formula that entails the number of discharges, patient days, billed charges and qualifications of the actual number of eligible physicians and provider users to meet the meaningful use criteria.

Had HCA not implemented the EHR and met the strict timeline required by the Federal Government, the financial loss to the Ventura County Health Care System is significant. For non-compliance, Medicare would have imposed a significant penalty of up to 25% in 2015 and up to 75% in 2017. This penalty is a reduction in payment for an estimated amount of \$9 to \$26 million and significant incentives of approximately \$21.8 million (\$16.35 million received incentives as of May 2016: \$13.39 mil Medi-Cal, \$1.04 mil Medicare). Had this Project not been implemented timely and not met the Federal requirements, a total of \$31 to \$48 million will be lost in revenues initially, and \$26 million annually.

The EHR project provides a complete transformation of the Medical Center's information system including more than 50 modules, is among the largest Cerner EHR implementations to date for the

two hospitals, one psychiatric hospital, Public Health Laboratory and 33 Clinics. The EHR converted the full cycle of business functions within HCA, and transformed and improved delivery of service through technology, proper documentation of patient health records, as well as compliance to a distinct regulatory requirement with the Federal Center for Medicaid and Medicare's meaningful use criteria.

Regarding the contract totals, for transparency related to the maximum total project commitment, the three EHR Board letters dated October 4, 2011, July 24, 2012 and May 21, 2013 stated that the Agency would return to the Board for additional requests such as equipment, staffing or consulting needs, and other resources when more specific information was better defined considering that the Project is quite unique and comprehensive. Additionally, some of the desired equipment technology (infusion pumps) to interface with the IT system were not available or were still in the development stage during the implementation phase of the Project.

In the October 4, 2011 Board letter, the different contract elements were summarized in a Table format by Phases and estimated costs for each Phase. These elements are greatly detailed in the contract agreement namely: Software, Professional Services and Training, Hardware & 3rd Party Software, Licensed Software, Hosted Software Services, Software Maintenance, Performance Improvement Partnership, Travel Expenses, Freight and Sales Tax, Cerner Release Upgrade, Patient Accounting/ Supply Chain Management Upgrade, Transaction Services and deliverables.

Further, a summary layout was provided to describe the scope of activities and timeframe of each activity in each of the two phases. Phase 1 had an estimated timeframe of 14-16 month time period and Phase 2 had an estimated timeframe of six months following the Phase 1 "Go Live". The summary also provided an estimated total of all the contract elements in each phases: \$26.47 million in Phase 1 and \$5.99 million in Phase 2.

The Project plan includes a Timeline with a detailed schedule consisting of 55 pages of activities with specific dates of deliverables from both VCMC and CERNER implementation Teams. FTEs were identified by position for all the involved individuals which includes employees, physicians and professional teams. One time expenditures, termed services and subscriptions were all included in the contract to provide a comprehensive estimated value of the full scope of the project within the agreement.

On July 24, 2012, HCA returned to the Board, as anticipated and mentioned in the October 4, 2011 Board letter, received an increase of \$9.05 million; of which, \$5.75 million for EHR Staffing (includes 5% contingency of \$415,000) and \$3.3 million for internal VCMC staff, physician cost and affiliated Clinic staff costs. This approved \$9.05 million additional EHR cost brought the revised total maximum amount of \$41.55 million.

On May 21, 2013, HCA returned to the Board and received approvals to expend up to \$6.26 million for medical and end user equipment, licenses and software to integrate in the EHR, of which a ratification approval of \$1.3 million was received for purchases of end user equipment related to the EHR implementation in order to meet the July 1, 2013 "Go Live" date. This approved \$5.2 million additional EHR cost brought the revised total maximum amount of \$47.78 million.

However, HCA is projecting that the ongoing contractual obligation committed to CERNER for \$47.8 million through October of 2016 will exceed the amounts approved by the Board of Supervisors by approximately \$1.7 million. The additional amount occurred as the equipment requirements were underestimated. As of June 2016, HCA has not exceeded the amount approved by the Board of Supervisors. HCA will return to the Board to recommend an additional \$1.7 million before October to increase the approved amount to the projected expenditures of \$49.48 million. In summary, the total maximum amount approved by the Board to date follows:

(in millions)					
Board Letter Date	Purpose/ Description	Approved Amount	Committed and Projected	Variance	Actual Amount Paid As of Dec 2014
Oct 4, 2011	Phase 1	\$26.47			
	Phase 2	5.99	\$32.47	\$34.05	(\$1.58)
July 24, 2012	Staffing				
	Outside Contract: (includes contingency)	\$5.75			
	In-house Resources:	3.30	9.05	8.15	0.90
May 21, 2013	Equipment	\$4.42			
	Lic/Software/Service	1.84	6.26	7.28	(\$1.02)
	TOTAL		\$47.78	\$49.48	(\$1.70)
					\$39.15

Reasonable due diligence was dedicated to the Project Plan and Contract including review and approval from the Information Technology Committee, County Counsel, Auditor- Controller's Office, General Services Agency, Information Technology Services Department and the County Executive Office. Because of the uniqueness of the Project Plan, in that it is a comprehensive IT transformation with required outcomes linked with the Clinical Quality Measures to qualify for Federal incentive payments, the recommendation above of separating the implementation cost from ongoing service/subscription was not appropriate or practical. Additionally, breaking the contract into phases would have been very difficult to manage administratively and would lose the full scope of the Project integrity.

Through the additional fiscal coordinator resources dedicated to future large capital projects, HCA will ensure contracts contain clear maximum/not-to-exceed amounts.

- B. **Approval of Additional Cerner Documents.** Additional Cerner documents were not always signed by County personnel with appropriate purchasing authority. These additional Cerner documents were comprised of sales quotes, arrangement letters, sales orders, etc., that clarified items in the original Cerner contract or added new monetary obligations at a potential cost of millions of dollars. HCA asserted that some of the documents had been previously authorized by the BOS under the original Cerner contract or other BOS approvals. However, certain documents were not approved by the BOS, and were signed by HCA personnel who were not deputized purchasing agents. For example, HCA acknowledged that three documents for additional Cerner consulting support totaling approximately \$425,000 were signed by various HCA personnel without purchasing authority. Ensuring that only authorized individuals sign agreement documents helps ensure that purchases are within appropriate spending limits.

Recommendation. HCA should designate a fiscal coordinator to support the project director of future capital projects. The fiscal coordinator's duties should include monitoring adherence to contract fiscal provisions and County fiscal policies, as well as coordinating fiscal changes with the General Services Agency Procurement Services Division.

Management Action. HCA management stated:

HCA partially disagrees with this finding given the large majority (approximately 90%) of the additional Cerner documents were sales quotes, arrangement letters and sales orders that were within the scope and amount of the originally Board approved Cerner contract and HCA interpreted the Contract as allowing the Project Director to approve these documents which did not bind the County to new commitments. HCA does concur that in some instances, it incorrectly allowed other individuals, at organization levels higher than the Project Director (Agency Director, Hospital Administrator, CFO, Ambulatory Care Director), to sign for some of these in-scope certain documents, and also acknowledges that some documents were approved for additional equipment and software totaling \$1.7 million that were not original included within the Board's previously approved contract with Cerner, and therefore should have been brought back through Procurement for Board approval. (See Management Responses to A for Specifics)

The following contract clauses were interpreted by HCA as granting the Project Director/Manager the authority to approve project costs and scheduled changes provided the County is not bound to additional costs or commitments over and above that previously approved by the Board

Section 1.4 "Project director"; The individual chosen by the with overall scope, cost and schedule approval for the Project for the County. All binding decisions for the County must be documented in writing and provided by the County Procurement Office.

HCA agrees and acknowledge that the process can be improved and there is a need to educate new Managers on the Approval & Procurement Process. HCA commits that new Agency Director and managers will attend the "Nuts & Bolts Training" to learn the County's Approval Policy and flow of the different business functions within the County.

Additionally, as recommended by the Auditor above, large Capital Projects, such as the Hospital Replacement Wing, now have instituted dedicated Fiscal coordinators to account for acquisition of assets, processing of Purchase Orders according to budgeted amounts, and has procured "Freight Train software" to track purchases, receipt activities, disposition and placement for each asset and tag received equipment.

Finally, as previously mentioned, HCA has reviewed and believes that the large majority of all documents in question were covered in the original board project approval amounts. HCA will return to the Board for ratification of those documents that we project will result in exceeding the previously Board approved amount.

- C. **Pre-Approval of Cerner Travel Expenses.** HCA did not ensure pre-approval of Cerner travel expenses that exceeded the contracted limit. Cerner contract Amendment No. 8 stated: "if travel expenses exceed the travel estimate of \$695,752, Client [i.e., the County] will need to pre-approve such additional expenses." However, as Cerner was reimbursed over \$800,000 in travel expenses, over \$100,000 in payments exceeded the contract limit without the required pre-approval.

Recommendation. The designated HCA fiscal coordinator for future capital projects should work closely with project managers and vendors to obtain approvals prior to expenses being incurred when required.

Management Action. HCA management stated:

HCA partially disagrees that Cerner travel expenses did not have pre-approval of expenses that exceeded the contracted limit. The following calculation breaks down the transaction activities to adjust the original budgeted travel expenses for additional engineers, integration, solution and system architects, system and technical team, who were brought in to augment the needed resources during the implementation:

\$346,000	Travel Expenses Budget in Phase 1, October 4, 2011 Board Letter contract elements
\$660,000	Sepsis Performance Improvement Bonus ("Sepsis")
(\$660,000)	June 13, 2013, the budgeted amount for Sepsis was eliminated
<u>\$350,000</u>	Substituted a portion of the Sepsis budget to partially increase the travel budget, Amendment #8
\$696,000	Revised Budget for Travel Expenses
<u>\$118,924</u>	Additional Travel Expenses for Cerner
<u>\$814,924</u>	Total incurred Travel Expenses

HCA monitored the travel budget and was aware of the potential overage and intended to offset this amount by savings in other budgeted contract elements. In total, the travel expenses overrun did not cause HCA to exceed the total contract amount of \$26.5 million in Phase 1.

Again as recommended above, large Capital Projects, such as the Hospital Replacement Wing, now have dedicated Fiscal coordinators currently to account for acquisition of assets, processing of Purchase order according to budgeted amounts, and procured "Freight Train software" to track purchase and receipt activities, tagging of equipment, disposition and placement for each asset.

2. **Invoice and Claim Approval Process.** HCA's invoice and claim approval process was not always sufficient to ensure that payments to vendors and staff were appropriate. County Administrative Policy No. Chapter VII(A)-7, *Claims Processing*, states that "departments should match the receiving document and invoice to the purchase order or contract on which goods/services were provided, in order to confirm quantity, quality, price, discount terms, freight terms, and total amounts due." Rather than requiring and reviewing support for invoices/claims associated with the EHR system, however, HCA paid many invoices/claims that did not reconcile to contract documents or other supporting documentation. As a result, we identified nearly \$5 million in payments to vendors and staff that could be called into question. We also substantiated \$4,525 in sales tax overpayments to vendors.

- A. **Incorrect Rates and Unsupported Charges.** HCA did not always reconcile rates and charges on invoices to written agreements. For example, our review of invoices paid to Novacoast Corporation ("Novacoast") disclosed that none of the rates on the invoices reconciled to the contract. Novacoast was hired in July 2012 to provide backfill support of HCA IT staff and implementation assistance during the EHR project. Of the total \$6,223,819 in hourly charges paid to Novacoast, \$4,439,138 was paid for job positions not listed in the contract and \$335,400 was paid in excess of the contract rate for the positions. In total, \$4,774,538 (77%) in payments to Novacoast were not supported by contract rates, which put HCA at risk of being overcharged for services.

Recommendation. HCA should review invoices in appropriate detail, including reconciling the rates and line items charged on invoices to the contract documents. If rates need to be modified, HCA should determine whether a formal contract amendment is necessary in accordance with the contract before services are provided.

Management Action. HCA management stated:

Total costs and the actual services were within the Board approved contracted amount and scope of work. We acknowledge that due to the scarcity of available contract resources for those positions specifically identified job positions in the written agreements, other position levels (substitutes) were utilized to ensure the deliverables were met in a timely manner. This resulted in different bill rates than compared to the contract fee schedule.

NovaCoast vendor was contracted to provide IT staffing services attributed to the EHR implementation and to backfill HCA IT, who were assigned in the Project. The total payment to NovaCoast is \$5,979,744 from November 10, 2011 to December 10, 2014. Note that EHR was implemented on July 1, 2013.

The total amount of NovaCoast payments attributable to the EHR Project is \$3,618,629. The total approved amount is \$6,147,000, (\$4,450,000 approved on July 24, 2012 and \$1,697,000 approved on December 10, 2013). However, the Board letter on December 10, 2013 authorizing the additional \$1,697,000 increase to NovaCoast contract incorrectly stated that the services were for EHR implementation, when they were actually for backfill of HCA IT resources assigned to the EHR project and other HCA IT support.

Through the additional fiscal coordinator resources previously committed to, HCA will ensure appropriate line item and labor contract rates are specified in future contracts and invoices validated with these rates, and that any changes are reflected in contract amendments as appropriate.

B. **Vendor Travel Expenses.** HCA did not require supporting documentation from EHR vendors paid for travel expenses, in nonconformity with County policy. Each vendor contract stated that travel expense reimbursements would be subject to the County's reimbursement policy, which required receipts and mileage logs. However, for example, over \$800,000 in travel expenses were reimbursed to Cerner without any documentation aside from the invoices to the County. Upon our request, HCA obtained support for \$261,663 of Cerner's travel expenses for our review, which disclosed \$13,663 (5%) in questionable payments:

- Of the \$3,938 in mileage reimbursements in our sample, none of these reimbursements were supported with trip logs of any kind.
- Of the \$84,030 in airline charges in our sample, 160 charges totaling \$3,169 were not supported with receipts. The vast majority of these unsupported charges consisted of an additional \$20 or \$25 above the cost of the airfare. Although these could be baggage fees, the charges were applied in instances where the airline did not charge a baggage fee or where a baggage fee was already reimbursed based on a receipt.

- Costs of \$2,340 were called into question as valid, reasonable, and necessary, including costs supported by illegible receipts and car rentals that may have exceeded business needs.
- No documentation was submitted for \$4,216 for items such as airfare, gas/toll/parking, lodging, car rental, and per diem reimbursements on days we could not verify travel.

Recommendation. HCA should obtain support for vendor travel expenses paid and evaluate whether to pursue reimbursement from vendors with substantiated overpayments. HCA should also strengthen procedures to ensure documentation supports travel reimbursements in the future.

Management Action. HCA management stated:

HCA partially disagrees that based on the finding above HCA did not require supporting documentation for travel expenses from EHR vendors. Both the CERNER contract and Novacoast contract agreements include adherence to the County Administrative Policy for travel and meal reimbursements, but the contract did not require detailed meal receipts and allowed CERNER to use the per diem rates established by the United States General Services Administration Domestic Per Diem Table for clients' location which was \$71 per day during the implementation period.

CERNER's agreement, as reflected in Section 3.3 "Contractor and Subcontractor Expenses" states that; *"air travel, auto rentals, per-diem rate of meals and cost of lodging and miscellaneous expenses..... subject to County's Travel and Reimbursement Policy...."*

The Novacoast contract as reflected in Exhibit B (3), states: *"no reimbursement will be paid for out of pocket expenses, except for travel expenses incurred while training at out of state CERNER facilities. Reimbursement amounts will be determined under standard COUNTY reimbursement policies."*

Both of these agreements were approved by the Board of Supervisors and were reviewed and approved by County Counsel, Auditor-Controller, County Executive Office and General Services Agency. Therefore, the terms for CERNER in not requiring detailed receipts is compliant with the approved contract and were billed appropriately using the per diem agreed rates.

HCA acknowledges, however that not all travel logs were provided by the vendor at the time of invoice submission. Since the initiation of the HCA EHR Audit, HCA has obtained a significant portion of the documentation.

HCA will ensure future contracts clearly specify the instances where detail receipts are required to be in compliance with County polices, and through the additional fiscal coordinator resources previously committed to, ensure such supporting documents are obtained at the time claims are submitted.

- C. **Sales Tax Overpayments.** Sales tax was inappropriately charged and paid on certain vendor invoices. Specifically, our audit samples disclosed that Cerner improperly charged sales tax of \$4,508 for sublicense software support and CompuWave improperly charged sales tax of \$17 for an

image configuration. Had HCA reviewed invoices in appropriate detail, these charges and payments totaling \$4,525 may have been avoided.

Recommendation. HCA should pursue reimbursement of \$4,525 in substantiated sales tax overpayments and institute proper review over invoices before payment in the future.

Management Action. HCA management stated: Cerner properly issued a credit memo for \$4,507.61 in March 2015 which was applied against their payment during that period. HCA is pursuing repayment of the \$17 sales tax paid to CompuWave.

- D. **Staff Meal Receipts.** Detailed receipts were not always required from staff as support for meal reimbursements while on EHR-related travel. County policy requires itemized receipts to mitigate the risk of unallowable charges (e.g., alcoholic beverages). Of \$225,631 in staff travel expenses, we reviewed 12 travel claims, which included 20 meal reimbursements totaling \$295. Three claims lacked detailed receipts for five meal expenses totaling \$115 (39%), which called into question whether items purchased were allowable.

Recommendation. HCA should obtain support for staff meal reimbursements paid and evaluate whether to require repayment from staff with substantiated overpayments. HCA should also strengthen procedures to ensure itemized receipts support meal reimbursements in the future.

Management Action. HCA management stated:

HCA respectfully disagrees that detailed receipts for meal reimbursements is always required. Under the Employees' County Business Expenses, "Meals Associated with Overnight County Business Travel", employees on such overnight travel may opt for a per day (per diem) reimbursement with no receipts required in the amount of \$45 or the option to be reimbursed on a per meal basis (Breakfast: \$15, Lunch: \$21 and Dinner: \$40). The policy also applies to contractors required to travel on County's behalf.

Upon reverification of all the total employee claims of \$193,322 or 86% of the total travel claims, are employee travel expenses related to the Project includes \$22,500 meals claimed from June 2012 through February 2013, it revealed that effective August 2012, of the 59 employees, only one employee opted a meal reimbursement and submitted a detailed receipt, (no alcohol included) for each meal. In June 2012, the first month of travel, employees submitted varying claims, some with per diem and some were meal reimbursements, where some receipts had no detailed food items. The next employee travel batch was in August 2012. The same employees who traveled were re-educated in July 2012, so that travel claims submitted from August 2012 through February 2013 were 100% compliant.

However, some of the physicians who were requested to undergo the training program out-of-state opted for meal reimbursements. The total physician travel claims amount is \$32,308 or 14% of the total travel claims. The credit card dinner receipts (max dinner reimbursement of \$40) from restaurants were received, but doesn't have the itemized food items on the receipt submitted. Another specific physician receipt reviewed was a hotel charge with no detailed food items. The transaction was done within the hotel ("Market Place") in the amount of \$5.00 and \$3.00, a total of \$8.00 for breakfast, (max breakfast reimbursement of \$15). This same physician also claimed lunch

for \$7.24 (max lunch reimbursement of \$21) and provided detailed receipt (with food items) for this meal, but didn't claim anything for dinner that day, so the total meal for the day claimed by this specific physician is \$15 in receipts. Thus, if the per diem meal reimbursement option has been chosen, \$45 would have been reimbursed rather than \$15 only. The findings are mostly for the physicians and by this example, does not constitute abuse or misuse of taxpayers' money.

Additional fiscal coordinator resources mentioned above will help ensure detailed receipts support charges in the future.

- 3. County Payroll Costs.** Staff did not always charge time associated with the EHR system implementation to the project. Codes had been established in the Ventura County Human Resources/Payroll system to capture the payroll costs for the more than 1,000 staff members who billed time to the project. However, our review of 55 staff who traveled for EHR training disclosed that 4 (7%) did not charge time to the EHR project for certain trainings, amounting to payroll costs of \$7,342. These payroll costs, and possibly more, not charged to the EHR project may have been improperly charged instead to grants or other programs with stringent timekeeping requirements.

Recommendation. HCA should establish time codes in a timely manner and ensure that proper time codes are utilized by staff in the future.

Management Action. HCA management stated:

HCA respectfully disagrees with the risk of improperly charging EHR payroll costs to grants. Upon further verification, the EHR payroll costs that were related to Public Health are not charged to Public Health grants. The hospital has only two grants; Song Brown and UCLA grant and have capped amounts, therefore, are not affected by specific timecoding. HCA's Federally Qualified Health Clinics also have a grant of \$1.6 million which is a 10% federal match on projected Program Cost. The award has a formula to use base salary with rate limitation, therefore are not affected by specific timecoding. Similarly, Medicare and Medi-Cal Cost Report settlements are generally based on total costs less payments received. Aside from evaluating the total amount spent for the Project versus budget, isolating time coding for this Project does not add value to grant or cost report filings.

Additional fiscal coordinator resources mentioned above will help ensure correct time coding in the future by monitoring the effect on grants or other programs with stringent timekeeping requirements.

- 4. Sensitive Non-Fixed Asset Accountability.** HCA did not adequately track new end-user equipment purchased as part of the EHR project. County Administrative Policy No. Chapter VII(B)-3, *County Sensitive Non-Fixed Asset Inventory Control*, requires that departments: "Establish and maintain a master list of all sensitive non-fixed assets in the department." Sensitive non-fixed assets are non-capitalized items with a value of less than \$5,000 and are subject to pilferage and misappropriation if not properly controlled, such as laptop computers. Because formal tracking through the Ventura County Financial Management System is not required, departments must establish and implement internal controls to maintain proper accountability. However, HCA could not produce a list of new EHR-related sensitive non-fixed assets for our audit. Therefore, we compiled our own list from invoices and physically located a sample of nearly 400 items totaling approximately \$500,000, including desktop and laptop computers, tablets, scanners, label printers, and televisions. Although we reasonably located the

equipment, HCA's lack of tracking and inventory placed the items at risk of misappropriation without detection.

Recommendation. HCA should establish procedures to ensure that newly purchased sensitive non-fixed assets are added to HCA's master list in a timely manner. HCA should assign the equipment by asset tag number (or "M-tag") to specific locations or individuals, such as laptop computers assigned to physicians, to promote accountability and enable periodic inventories. The master list should be updated when items are replaced, transferred to other locations, etc. In addition, HCA should ensure that M-tags or other identifying labels are affixed in a visible location on wall-mounted televisions.

Management Action. HCA management stated:

HCA respectfully disagrees with the finding that no adequate tracking of new and end-user equipment purchased as a part of the EHR project. Considerable management internal controls are in place to ensure proper recording and handling of expenditure transactions, acquisition and disposition of these non-sensitive fixed assets. For example, all 400 items purchased were located. Following are some examples of controls validating compliance, operational efficiency and preventions related to misappropriation risks:

- The current HCA's IT Director has a document that lists by location each equipment type identified by make, model, serial number, invoice number and an M-Tag, which is used to label equipment such as computers and provides an inventory tracking mechanism for IT's non sensitive assets. Items purchased from Compuwave are tagged by the vendor during configuration at their facility. The assignment is sequential by order. The M-Tag numbers are also available on the Compuwave website. Most Cerner equipment was tagged by HCA IT when it was set up.
- As described in the Auditor's comment, 400 equipment items purchased were physically located as observed by the Auditor. Physical inventory of the non-sensitive asset is done periodically as reported in our last Control Self-Assessment Survey. The non-fixed asset inventory log is kept at HCA's Fiscal Department. For asset custody, the computer equipment room has a register log to monitor entry and exit of each personnel and a sample of the document is submitted, herewith.
- HCA started tracking Sensitive Non-Fixed Asset (FA) inventory since 2008 as an operational improvement instituted by the Director at that time. Each department has established a database to track Non-FA inventories such as laptops and cell phones. HCA began the annual inventory of Sensitive Non-FA items in 2009 following the creation of Department databases. Each Department within HCA is responsible for managing their own database. The Non-FA inventory list, as provided during the audit, is kept electronically and maintained by each HCA Department using a Microsoft Excel Program. The Non FA inventory list includes an identifier for each item, namely: assigned tag number, description and location for each items, date of acquisition and disposition, and where applicable, the name of the employee to which the item is being assigned. There are unique protocols from each HCA Department ensuring proper control of the Non FA inventory. For example in Behavioral Health, the records are maintained by a Management

Assistant and periodically reviewed by the Chief Operating Officer. A request form is completed for a cell phone or a computer and is approved by the corresponding supervisor. When the requested item is issued, the employee signs a form acknowledging the receipt of the item (phone) and understanding of the policy. Invoices are reviewed and reconciled to the number of phones or non FA items assigned every month and are approved for processing of payment. Reports are prepared quarterly for HCA Fiscal Management for updates and documentation of the changes in the non FA inventory.

Additional fiscal coordinator resources mentioned above will help ensure these internal controls remain in place and help ensure that all applicable equipment is M-tagged in the future.

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective actions by December 31, 2016.